

**ELECTRONIC TRANSACTIONS CLEARINGHOUSE**

**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITOR'S REPORT AND**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2004**

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**ELECTRONIC TRANSACTIONS CLEARINGHOUSE**  
**OFFICIALS**

<u>Name</u>	<u>Title</u>
J. Patrick White	President
Angela Connolly	1 <sup>st</sup> Vice President
Al Griffiths	2 <sup>nd</sup> Vice President
Denise Dolan	3 <sup>rd</sup> Vice President
Dale Hyman	Member
Mary Williams	Member
Robert Haylock	Member
Mark Linda	Member
Deanna Neldeberg-Bachman	Member
Wayne Chizek	Member
Bob Paulson	Member
Jane Halliburton	Member
Kathy Nicholls	Member
Kim Painter	Member
Gary Anderson	Member
Mike King	Member
Lannie Miller	Member
Lee Duin	Member
Tim Huey	Member
Richard Heidloff	Member
William Peterson	Executive Director



David W. Hurst, CPA  
Kathleen A. Koenig, CPA  
Robert R. McGowen, CPA  
Michael W. McNichols, CPA  
Thomas J. Pflanz, CPA  
John A. Schmidt, CPA  
Daniel A. Schwarz, CPA  
S. James Smith, CPA

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the  
Electronic Transactions Clearinghouse

We have audited the accompanying statement of financial position of Electronic Transactions Clearinghouse as of June 30, 2004, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Electronic Transactions Clearinghouse as of June 30, 2004, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated July 30, 2004, on our consideration of the Electronic Transactions Clearinghouse's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit of the Organization's financial statements as of and for the year ended June 30, 2004.

Management's Discussion and Analysis on pages 3 through 6 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

*McGowen, Hurst, Clark & Smith, P.C.*

West Des Moines, Iowa  
July 30, 2004

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## **ELECTRONIC TRANSACTIONS CLEARINGHOUSE** **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Electronic Transactions Clearinghouse (ETC) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with ETC's financial statements, which follow.

### **FINANCIAL HIGHLIGHTS**

- ETC began operations on July 1, 2003.
- ETC has sixty-seven Iowa county members.

### **USING THIS ANNUAL REPORT**

The Electronic Transactions Clearinghouse is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which, is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to ETC's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of ETC's financial activities.

The Statement of Financial Position presents information on ETC's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of ETC is improving or deteriorating.

The Statement of Activities presents information on the ETC's operating revenues and expenses, non-operating revenues and expenses and whether the ETC's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the ETC's cash and cash equivalents during the year. This information can assist the user of the report in determining how the ETC financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements.

**ELECTRONIC TRANSACTIONS CLEARINGHOUSE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL ANALYSIS OF THE ELECTRONIC TRANSACTIONS CLEARINGHOUSE**

*Statement of Net Assets*

As noted earlier, net assets may serve over time as a useful indicator of ETC's financial position. ETC's net assets for fiscal 2004 totaled approximately \$97,300. A summary of ETC's net assets is presented below.

Cash	\$ 80,280
Computer software at cost, less accumulated depreciation	<u>28,522</u>
Total assets	110,802
 Current liabilities	 <u>13,486</u>
 Total net assets – unrestricted	 <u>\$ 97,316</u>

All of ETC's net assets are unrestricted net assets that can be used to meet ETC's obligations as they come due.

**ELECTRONIC TRANSACTIONS CLEARINGHOUSE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL ANALYSIS OF THE ELECTRONIC TRANSACTIONS CLEARINGHOUSE,  
continued**

*Statement of Activities*

Operating revenues are received for entry and membership fees from the member counties. Operating expenses are expenses paid to develop and operate ETC's web-site. Non-operating revenue is comprised of interest income. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets for the year ended June 30, 2004 is presented below:

Changes in Net Assets	
Revenue	
Dues collected from members	\$ 176,715
Entry fees collected from members	162,645
Interest	800
Total revenue	<u>340,160</u>
Expenses	
Project management	130,846
Development fee	48,791
Set-up and hosting fee	38,246
Administrative expenses	13,486
Depreciation	10,729
Miscellaneous	746
Total expenses	<u>242,844</u>
Net increase in net assets	97,316
Net assets, beginning of year	<u>-</u>
Net assets, end of year	<u>\$ 97,316</u>

The Statement of Activities reflects a positive year with an increase in the net assets at the end of the fiscal year.

**ELECTRONIC TRANSACTIONS CLEARINGHOUSE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL ANALYSIS OF THE ELECTRONIC TRANSACTIONS CLEARINGHOUSE,  
continued**

*Statement of Cash Flows*

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes membership and entry fees reduced by payments to developers of ETC. Cash used by investing activities represents purchase of computer software.

**COMPUTER SOFTWARE**

At June 30, 2004, ETC had approximately \$28,500 invested in computer software, net of accumulated depreciation of \$10,729. Depreciation charges totaled \$10,729 for fiscal 2004. More detailed information about the ETC's computer software is presented in Note A to the financial statements.

**ECONOMIC FACTORS**

Electronic Transactions Clearinghouse began operations on July 1, 2003. Some of the realities that may potentially become challenges for ETC to meet are:

- Technology continues to expand and current technology becomes outdated presented an on going challenge to maintain up to date technology at a reasonable cost.
- ETC was created to meet a federal standard for receipt of electronic medical transactions. Changes in federal standards could present fiscal challenges caused by required system design changes.
- Providers of medical services to counties must make the necessary investment in technology to be able to submit claims electronically.

ETC anticipates 2005 fiscal year revenues to be significantly lower as it does not expect to collect dues from members. The only anticipated expenses during the 2005 fiscal year will be a monthly hosting fee and depreciation expense.

**CONTACTING THE CLEARINGHOUSE'S FINANCIAL MANAGEMENT**

This financial report is designed to provide Board of Directors and management with a general overview of ETC's finances and to show the ETC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Electronic Transactions Clearinghouse, 501 SW 7<sup>th</sup> Street, Suite Q, Des Moines, Iowa.



**ELECTRONIC TRANSACTIONS CLEARINGHOUSE**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2004**

**ASSETS**

Cash and cash equivalents	\$ 82,280
Computer software	39,251
Less accumulated depreciation	<u>(10,729)</u>
	<u>28,522</u>
<b>Total assets</b>	<b><u>\$ 110,802</u></b>

**LIABILITIES AND NET ASSETS**

Liabilities	
Due to Iowa State Association of Counties	\$ 13,486
Net assets - unrestricted	<u>97,316</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 110,802</u></b>

The accompanying notes are an integral part of these financial statements.

**ELECTRONIC TRANSACTIONS CLEARINGHOUSE**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2004**

**REVENUE**

Membership fees	\$ 176,715
Entry fees	162,645
Interest income	<u>800</u>
<b>Total revenues</b>	<b>340,160</b>

**EXPENSES**

Project management	130,846
Development fee	48,791
Set-up and hosting fees	38,246
Administrative expenses	13,486
Depreciation	10,729
Miscellaneous	<u>746</u>
<b>Total expenses</b>	<b><u>242,844</u></b>

INCREASE IN UNRESTRICTED NET ASSETS	97,316
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UNRESTRICTED NET ASSETS, beginning of year	<u>-</u>
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UNRESTRICTED NET ASSETS, end of year	<b><u><u>\$ 97,316</u></u></b>
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The accompanying notes are an integral part of these financial statements.

**ELECTRONIC TRANSACTIONS CLEARINGHOUSE**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2004**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Increase in net assets	\$ 97,316
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	10,729
Increase in amounts due to Iowa State Association of Counties	<u>13,486</u>
Net cash provided by operating activities	121,531

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of computer software	<u>(39,251)</u>
Net increase in cash	82,280

CASH, beginning of year	<u>-</u>
CASH, end of year	<u><u>\$ 82,280</u></u>

The accompanying notes are an integral part of these financial statements.

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities - The Electronic Transactions Clearinghouse (ETC) was formed in accordance with Iowa Code Chapter 28E to provide the use of an electronic data interchange for Health Insurance Portability and Accountability Act (HIPAA) related transactions with member counties in Iowa.

Cash and cash equivalents - For purposes of the statement of cash flows, ETC considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Computer software - ETC presents computer software at cost less accumulated depreciation. Software is depreciated over its useful life by the straight line method, generally three years. Expenditures for software maintenance are expensed as incurred.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes - ETC was formed as a joint venture between participating member counties and the Iowa State Association of Counties and is exempt from income taxes. Accordingly, no provision for income taxes has been provided in the financial statements.

#### NOTE B - DUE TO IOWA STATE ASSOCIATION OF COUNTIES

Certain administrative expenses are paid by the Iowa State Association of Counties (ISAC) on behalf of ETC and then reimbursed to ISAC. Amounts owed to ISAC are non-interest bearing and repaid as service fees are collected from participating counties.

#### NOTE C - COMMITMENTS

ETC has a two-year hosting agreement that ends September 30, 2005. The agreement requires monthly payments of \$3,625 and may be terminated by either party after the expiration of the initial two-year commitment by providing thirty days written notice to the other party. After the initial commitment period, the agreement remains in effect on a month-to-month basis until terminated by either party.

#### NOTE D - FUNCTIONAL ALLOCATION OF EXPENSES

Functional expenses allocations were made by direct assignment of cost to functional categories. Following is a summary of the functional allocation of expenses at June 30, 2004:

Program services	\$ 228,612
Fundraising costs	-
General and administration	<u>14,232</u>
	<u>\$ 242,844</u>



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of the  
Electronic Transactions Clearinghouse

We have audited the financial statements of the Electronic Transactions Clearinghouse as of and for the year ended June 30, 2004 and have issued our report thereon dated July 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Electronic Transactions Clearinghouse's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Electronic Transactions Clearinghouse's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during the audit of the financial statements of Electronic Transactions Clearinghouse. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Electronic Transactions Clearinghouse's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors and Electronic Transactions Clearinghouse's management and is not intended to be and should not be used by anyone other than these specified parties.

*McGowen, Hurst, Clark & Smith, P.C.*

West Des Moines, Iowa  
July 30, 2004

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**ELECTRONIC TRANSACTIONS CLEARINGHOUSE**  
**SCHEDULE OF FINDINGS**  
**YEAR ENDED JUNE 30, 2004**

**Findings Related to the Financial Statements**

**Instances of non-compliance**

No matters were noted.

**Reportable conditions**

No matters were noted.

**Other findings related to required statutory reporting**

No matters were noted.